

SECRET

PAGE 1 OF 6

FILE NOTE

MEETING WITH PHILIP MORRIS REPRESENTATIVES

at Pennyhill Park, Bagshot

on 5 August 1992

In attendance: Peter Scheer	President Latin America Region
Rafael Arguelles	Vice President Latin America Region
Fred Hauser	Vice President Central America, Puerto Rico and Dominican Republic

K S Dunt)
D J Etchells) BATCo
T M Wilson)

1) GUATEMALA

PMI wanted to know BATCo stance on Montana label trade mark issue. They would accept a 'Guatemala only' position from us or our promise to adapt the 'Mexican' design. Otherwise they will pursue legal action to contest the registration not only in Guatemala but also wherever we have registered the Montana label design.

Although we stated that for the time being we do not have plans to extend Montana using existing label design we did not give any assurances to PMI that we would accede to their wishes. We should ensure that the lawyers continue to talk and document any exchange by means of a file note.

2) Trade Mark Policy

*Asok -
in Amster.*

PMI confirm that it is not their policy to register "competitive" trade marks and sought confirmation from BATCo that this was our stance. KSD said that recent "unspecified" incidents would lead him to think otherwise! PMI offered to investigate these instances if they were given details.

No indication was given that PMI were ready to come to a broad agreement on trade mark swapping at this stage.

3) PMI complained that TANASA had lowered the price of LS in the supermarket chain of Paiz in Guatemala City to below that of Marlboro, i.e. from Q6.00 to Q4.10 (cf Marlboro at Q4.20)

BATCo undertook to investigate that with JMW.

(Subsequently clarified as a short term limited store promotion to clear a LS stock imbalance: this was run for three weeks and ended 8 August. It follows precedence in the market from Marlboro and Belmont.)

301570688

SALVADOR

- 1) PMI raised the 'contraband from Honduras' issue which was counteracted by BATCo's raising the price gap argument. No ground conceded on either side.
- 2) PMI raised the issue of overwraps vs carton, and would like to reach agreement (throughout CA) in order to contain wrapping costs. As far as El Salvador was concerned we maintain that this is an issue to be left to local management agreement. The point was made that quality packing standards in CA needed to be competitive internationally.

PANAMA

- 1) General agreement on the principle of the need to close down of factories of both companies with sourcing from Costa Rica.

PMI currently undertaking 'country of origin' research and BATCo agreed that it would be sensible to exchange research findings when available towards the end of the year.

If possible we would seek agreement on a common approach to adjust the levels between production and sales tax to enable a joint industry lobby to take place. AJY to clarify

General agreement on the need for a contingency holding of machinery in Panama for both companies. PMI accepted that TISA was best option for this. However, general agreement on machinery and production specifications would need to be confirmed by both parties.

- 2) We queried whether the bonusing on L & M had been stopped in accordance with the industry agreement (our information is that this has happened).

- 3) Agreed that there was good co-operation between both Companies.

COSTA RICA

PMI complained about (i) Belmont Bonusing - 4 packs per carton (ii) Exclusivities (iii) Level of advertising which might jeopardise industry flexibility.

BATCo countered by not agreeing to any shift in stance on grounds that we needed to recover market share, and furthermore stated that we needed to resolve price gaps that had been eroded (albeit by agreement) over the last few years.

PMI suggested we might look at a share agreement.

BATCo would need time to think and will revert to PMI.

R
L & M.
Belmont
Bonusing
Stopped.
④ PMI want
to break
Exclusivities.

301570689

REGIONAL FOR C.A.

- 1) PMI obviously anxious for increased profitability from CA and would like some agreement containing expensive market support practise such as bonusing, exclusivity and level of advertising support in certain territories should be considered so as to improve industry profitability of both companies.
- 2) They wanted an indication from BATCo of the possibility of a share agreement in all four Countries where we compete and suggested we exchange concepts by the end of September 1992, for discussion at a meeting in October. BATCo offered to consider this and will revert with a proposal if appropriate.

301570690

**ANDEAN PACK
VENEZUELA**

1) BATCo understanding of level of trade bonusing according to the latest agreement is 1.8%. Raphael Arguelles thought the agreement specified 2.5% for the Panadarias but was uncertain. Peter Schoer disagreed. PM to confirm.

Furthermore, exclusivity for this 2.5% would be limited to the 50 or 60 outlets which were exclusive before 9 March 1992. BATCo suggested an exchange of outlet addresses would be useful if this was the case.

The bonusing agreement excludes new brand launches for a limited period, eg L & M.

2) Price Increases

BATCo stated concern over the significant growth of the market segment emerging in DNP and cautioned that this would, if allowed to spread, destabilise the industry throughout the region.

PMI agreed with this stance.

BATCo suggested an aggressive price increase to be negotiated at a local level for DNP to be implemented if possible by the end of August.

A joint paper was being developed for submission to Government on excise.

Following action on DNP PMI suggested we should pursue a DP price increase. PMI wanted linkage between the DNP increase. This was not supported by us.

PMI were under the impression that agreement had already been reached to a Bs 6 per pack increase across the board. This was denied by BATCo and specifically noted it was not agreed by KSD.

PMI offered to send written confirmation of this agreement which would give the following price levels:-

Price Category	Bs per pack (consumer)	
	Current	Proposed
High	48	54
Medium	45	51
Low	42	48

3) BATCo gave due notice to PMI that it was likely that some wholesalers could pass commission on to the retail trade for CATANA brands. This would be instantly countered by Bigott, whether or not these had been approved by CATANA. It was not our intention to initiate this destabilisation of the market, merely to counter any move to gain advantage from whatever source.

301570691

SECRET

PAGE 5 OF 6

PMI requested us to consider an agreement banning exclusivities. No commitment was made.

4) KSD raised the issue of Belmont Ex Ecuador which had established a 3% of the total market (including DNP).

[We need Bigott to confirm the accuracy and levels of monthly sales of BELMONT Ex Ecuador.]

DJE

PMI said that Mansur (their agent in Aruba) had not ordered BELMONT since the price increase in March 1992 and that apart from one consignment not sourced through Mansur, the brand had not been manufactured in Ecuador over the last few months.

PMI were concerned at the large amount of stock they understood we held in Aruba (estimated by them at 3-400 million).

5) Both PMI & BATCo agreed that we should explore a common industry lobby position on Andean Pack, particularly for Venezuela and Colombia and that this should be co-ordinated through Ernesto Antich (Bigott) and Cesar Rodrigues (PMI's Public Affairs man in New York).

301570692

MERCOSUR
ARGENTINA

PMI rejected any joint move for domestic price increases or widening the market gaps.

They also rejected any share agreement in Argentina unless this was linked with the Brazilian market. KSD confirmed that this was outside his remit but he would refer back to Souza Cruz and the BATCo board.

2) There was some discussion on the economic scenario for Argentina but PMI opinion was that there should be no devaluation in 1993 and that the economic regeneration and consumer boom, particularly in consumables, would continue.

The private sector companies in Brazil and Argentina were active in doing bilateral deals in advance of the government sector and that the Brazilians were taking a more aggressive stance. Mercosur timetable in January 1995.

OTHER BUSINESS

Next meeting suggested for late November 1992 with location to be determined - possibly a Caribbean venue.

301570693